

Message Text

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ACTION NEA-13

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

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TO SECSTATE WASHDC 8693

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY JIDDA

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY TEHRAN

C O N F I D E N T I A L KUWAIT 0473

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, KU

SUBJECT: NEWSPAPER REVEALS TERMS OF PARTICIPATION AGREEMENT

REF: (A) KUWAIT 263 (B) KUWAIT 378

SUMMARY: NEW KUWAIT DAILY "AL-WATAN" PUBLISHED APPARENTLY ACCURATE TEXT OF RECENTLY SIGNED PARTICIPATION AGREEMENT. OF SPECIAL INTEREST WERE REVELATIONS THAT COMPENSATION TO BE PAID BY GOK ONLY \$112 MILLION AND THAT NO PRECISE BUY-BACK ARRANGEMENTS HAVE BEEN MADE. NEWSPAPER ARTICLE ALSO REVEALS PLAN FOR ADMINISTRATION OF KOC WHICH SOME COMMENTATORS CRITICIZE AS GIVING GULF AND BP VETO POWER OVER GOK WHICH INCONSISTENT WITH GOK MAJORITY OWNERSHIP. END SUMMARY.

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1. NEW LOCAL DAILY "AL-WATAN" FEBRUARY ;; HAS PUBLISHED APPARENTLY ACCURATE TERMS OF RECENTLY SIGNED PARTICIPATION AGREEMENT (REFTELS). EMBASSY TRANSLATION OF TEXT OF ARTICLE (UNNECESSARY WORDS OMITTED) FOLLOWS:

2. BEGIN TEXT: AGREEMENT MADE IN THREE ORIGINALS IN KUWAIT ON 29TH JANUARY 1974 BETWEEN GOK REPRESENTED BY THE MINISTER OF FINANCE AND OIL, HEREINAFTER CALLED "THE GOVERNMENT" PARTY OF THE FIRST PART, AND THE B.P. CO. (KUWAIT) LTD. AND GULF COMPANY KUWAIT HEREINAFTER CALLED "THE TWO COMPANIES" PARTY OF THE SECOND PART, WHEREBY IT IS AGREED AS FOLLOWS:

ARTICLE 1 - AS OF 1ST JANUARY 1974, THE GOVERNMENT SHALL HAVE:

A- 69 PERCENT OF THE OPERATIONS AND RIGHTS OF THE TWO COMPANIES IN KUWAIT IN CONNECTION WITH OIL.

B - 60 PERCENT OF THE PRESENT FACILITIES OF THE TWO COMPANIES IN KUWAIT RELATING TO PETROLEUM, INCLUDING THE FACILITIES OF REFINERY AND GAS LIQUEFACTION.

C - THE OPERATIONS, RIGHTS AND FACILITIES REFERRED TO ABOVE SHALL COVER: SEA BOATS OWNED BY KUWAIT OIL COMPANY LTD. AS WELL AS STOCK OF PETROLEUM AS AT 31 DEC 73. THIS ARTICLE DOES NOT INCLUDE ANYTHING THAT PREJUDICES THE GOVERNMENT'S RIGHTS IN NATURAL GAS IN ACCORDANCE WITH PRESENT ARRANGEMENTS.

ARTICLE 2 - IN CONSIDERATION THEREOF, THE GOVERNMENT SHALL PAY THE THE TWO COMPANIES \$112,000,000. INTEREST SHALL BE ADDED TO THIS AMOUNT FOR THE PERIOD AS OF 1ST JANUARY 1974 UNTIL THE DATE OF PAYMENT.

ARTICLE 3 - THE TWO COMPANIES SHALL PAY TO THE GOVERNMENT FOR THE YEAR 1973 AN AMOUNT EQUAL TO THAT WHICH WOULD HAVE BEEN DUE TO THE GOVERNMENT HAD THERE BEEN APPLIED IN KUWAIT PARTICIPATION ARRANGEMENTS ON THE BASIS OF PARTICIPATION ARRANGEMENTS THAT WERE GENERALLY IN FORCE IN THAT YEAR IN OTHER ARAB COUNTRIES LITTORAL TO THE ARAB GULF. THE SAID AMOUNT SHALL INCLUDE INCREMENTS BY WAY OF INTEREST INCURRED UNTIL THE DATE OF PAYMENT.

ARTICLE 4 - BOTH THE GOVERNMENT AND THE TWO COMPANIES SHALL, EACH YEAR, DETERMINE ITS REQUIREMENTS OF CRUDE FOR USE IN CONFIDENTIAL

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KUWAIT AND FOR EXPORT, FROM ITS SHARE PERCENTAGE FROM PERMITTED PRODUCTION. THE BALANCE OF THE SHARE, IF ANY, OF EACH OF THE TWO PARTIES, SHALL BE PLACED AT THE DISPOSAL OF THE OTHER PARTY TO BE PURCHASED AT COMMERCIAL PRICES AND UNDER TERMS TO BE DETERMINED BY AND IN ACCORDANCE WITH ARRANGEMENTS AGREED UPON BETWEEN THE TWO PARTIES.

ARTICLE 5 - BOTH PARTIES SHALL FORM A JOINT ADMINISTRATIVE COMM-

ITTEE CONSISTING OF 4 MEMBERS, TWO OF THEM APPOINTED BY THE GOVERNMENT AND TWO APPOINTED BY THE TWO COMPANIES ONE BY EACH. THE JOINT ADMINISTRATIVE COMMITTEE SHALL BE RESPONSIBLE FOR DETERMINING THE ENTIRE MAIN POLICY OF ADMINISTRATION INCLUDING:

- A - PROGRAMS OF EXPLORATION AND DEVELOPMENT AND PROGRAMS OF WORKS AND CONSTRUCTION OF NEW MEANS AND FACILITIES.
- B - SALE OR DISPOSAL OF ASSETS.
- C- CAPITAL OUTLAY, AND OPERATING COSTS AND DISPOSAL OF FUNDS.
- D - SELECTION AND APPOINTMENT OF PERSONNEL TO OCCUPY IMPORTANT POSTS AND THEIR REMOVAL FROM THESE POSTS.
- E - REGULATIONS OF IDEMNITY AND EMOLUMENTS FOR EMPLOYEES.

THE GONVERNMENT SHALL HAVE 60 VOTES IN THE JOINT ADMINIS-
TRATIVE COMMITTEE AND THE TWO COMPANIES SHALL HAVE 20 VOTES EACH. COMMITTEE DECISIONS SHALL BE TAKEN BY A MAJORITY OF 75 VOTES FROM THE TOTAL RIGHTS OF VOTING. THE DECISIONS SHALL BE BINDING TO ALL PARTIES. IN CASE BOTH COMPANIES DO NOT VOTE IN FAVOR ANY PROJECT THAT REQUIRES CAPITAL OUTLAY, THE GOVERNMENT SHALL SET OUT TO EXECUTE THAT PROJECT PROVIDING ALL RELATIVE COSTS AND SHALL ENJOY ALL OF ITS BENEFITS.

(2) OPERATIONS SHALL BE RUN ON BEHALF OF THE TWO PARITIES AND UNDER THE DIRECTION OF THE JOINT ADMINISTRATIVE COMMITTEE, BY A KUWAITI SHAREHOLDING COMPANY TO BE ESTABLISHED IN KUWAIT IN ACCORDANCE WITH KUWAITI LAW. THE CAPITAL OF THIS OPERATING COMPANY SHALL BE GOVERNMENT OWNED 60 PERCENT. THE TWO COMPANIES SHALL OWN 20 PERCENT EACH.

(3) THE HEAD OF THE JOINT ADMINISTRATIVE COMMITTEE AND THE CHAIRMAN OF THE BOARD OF THE OPERATING COMPANY SHALL BOTH BE KUWAITI NATIONALS.

ARTICLE 6 -1- THE GOVERNMENT SHALL HAVE THE RIGHT TO ALIENATE OR ASSIGN ITS SHARE IN WHOLE OR IN PART UNDER THIS AGREEMENT TO A KUWAITI BODY.

2- IF THE GOVERNMENT ACTUALLY EXERCISES ITS RIGHT IN
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ALIENATION OR ASSIGNMENT, THE ALIENEE OR ASSIGNEES SHALL ASSUME THE OBLIGATIONS THAT COME UNDER THE CONCESSION OR THE OBLIGATIONS, FINANCIAL OR OTHERWISE, ATTENDANT THERETO, AND SHALL BE BOUND BY THEM PROPORTIONALLY TO ITS PARTICIPATION.

ARTICLE 7 - RELATIONS BETWEEN THE GOVERNMENT AND THE TWO COMPANIES SHALL BE REVIEWED BEFORE THE END OF 1979.

ARTICLE 8 - THIS AGREEMENT SHALL COME INTO FORCE UPON RATIFICA-
TION IN ACCORDANCE WITH THE CONSTITUTION OF THE STAE OF
(72-85.

FOR GOVERNMENT OF THE STATE OF KUWAIT
ABD AL-RAHMAN SALEM AL-ATIQI

FOR BP (KUWAIT) LTD.

W.R. SUTCLIF

FOR GULF COMPANY KUWAIT

M.L. RALSTON

END TEXT

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3. COMMENT: "AL-WATAN" ARTICLE REVEALS FOR FIRST TIME PUBLICLY
PRECISE TERMS OF PARTICIPATION AGREEMENT. IT APPEARS TO BE
AUTHORITATIVE. WE UNDERSTAND THAT LEFTIST MEMBERS OF NATIONAL
ASSEMBLY ARE CRITICAL OF PROVISIONS OF ARTICLE 5 REQUIRING
75 PERCENT MAJORITYBDTROWCTION IN ADMINISTRATIVE COMMITTEE.
THIS, THEY CHARGE, GIVES GULF AND BP MORE OF A VETO POWER OVER
GOK THAN THEIR PERCENTAGE OF OWNERSHIP JUSTIFIES. LACK OF BUY-
BACK TERMS HAS CAUSED SURPRISE, AS HAS EXTREMELY LOW LEVEL OF
COMPENSATION (ARTICLE 2). THIS HAS LED TO SPECULATION THAT SOME
SECRET SIDE AGREEMENTS MUST EXIST.

4. POINTS NOTED IN PARA SUGGEST THAT CRITICS IN PARLIAMENT WILL
ZERO IN ON SUCH POINTS WHEN PARTICIPATION BILL IS DEBATED IN THAT
BODY. THE MATTER IS CURRENTLY BEFORE THE FINANCE AND OIL COMMITTEE
WHICH ONE LOCAL PAPER HAS DESCRIBED AS FAVORING PARTICIPATION
OVER NATIONALIZATION. PRESS IN GENERAL, HOWEVER, CLAIMS THAT
DEPUTIES WHO PREFER NATIONALIZATION INTEND TO PRESS GOK FOR AT
LEAST A FULL DEBATE OF PARTICIPATION AGREEMENT, AS TOOK
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PLACE PAST YEAR. NATIONAL ASSEMBLY DEBATE ON NEW AGREEMENT IS
EXPECTED TO BEGIN TUESDAY, FEBRUARY 5, BUT FINAL VOTE IS TAKEN.

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